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SUBJECT: BEARISH: LIBYAN STOCK MARKET LUMBERING ALONG SLOWLY

1. (SBU) Last month Libyan authorities announced the launch of Libya's stock market (the Libyan Stock Exchange Market, or LSEM) on the occasion of the 30th anniversary of the establishment of the Jamahiriya (or "state of the masses") with the unveiling of Moammar al-Qadhafi's Green Book. This seemed an odd pairing, given that the cocktail of socialist economic admonitions found in the second volume of the Green Book ("The Economic Basis of the Third Universal Theory") are not obviously compatible with the form and function of stock markets. It was also yet another widely-hyped announcement for an entity which has been difficult to quantify since its purported formation in 2004, and subsequent "launching" announcements each year since. Adding to the confusion, conflicting official statements alternate the LSEM's headquarters location between Tripoli and Benghazi in different announcements.

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"Like Starting a Stock Exchange on the Moon"  
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2. (SBU) In an effort to cut through the confusion, Econoff sat down on April 5 with a U.S. contractor who provides LSEM consulting support. This source, with twelve years of experience working as a consultant to numerous governments establishing their own stock markets, was just finishing his first visit to Libya. During his visit, he had delivered remarks at an Arab Stock Exchange conference in Benghazi, which he described as well attended and professionally organized.

3. (SBU) The LSEM intends to draw from regional models -- the stock markets in Egypt, Jordan and Morocco -- to develop its own set of procedures and regulations. Source described the LSEM's most pressing requirement as the selection and implementation of a computerized trading and settlement system, which will be issued as a tender to a select group of bidders in the coming months. There are currently no established rules and regulations for the LSEM, no set procedures for registering companies and no mechanism for issuing stocks. There are also no brokers or brokerage houses, and no companies are truly "listed" with the exchange (Note: Press reports and embassy contacts have indicated that a half-dozen companies were listed with the LSEM, but that seems to reflect planned, vice actual listings accessible to potential investors. End note). Reflecting on the challenges of starting a stock market from scratch in the Libyan operating environment, source commented that it was "like starting a stock exchange on the moon." Despite the daunting task, source noted that there was great enthusiasm on the part of the LSEM staff to set up an effective stock market that would compare favorably to others in the region.

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¶4. (SBU) The LSEM currently falls under the auspices of the Secretary of the GPC for Economy, Trade and Investment, and is managed on a day-to-day basis by General Director Suleiman Salem al-Shahomy. It was formally established in Libyan law under General People's Committee Decree Number 34 of 2006. The LSEM currently occupies two facilities, one in Tripoli and the other in Benghazi. The fifteen employees at the Tripoli-based headquarters occupy a modern office located within the premises of the Tripoli International Fairgrounds. The Benghazi office employs about thirty people in brand-new office spaces, and the facilities in both cities conduct basic training on-site for their employees. Despite GOL announcements that the LSEM would be headquartered in Tripoli, Econoff's source surmised that the LSEM would ultimately be headquartered in Benghazi once fully operational. He estimated that it would take another full year until a limited launch of the LSEM, with two or three companies participating, was possible. The launch number might grow if Libyan authorities allow the LSEM to link-up with neighboring stock markets to generate cross-border trading and additional trading options.

¶5. (SBU) Post Comment: The LSEM launch is an integral part of the GOL's National Economic Strategy. It is closely linked with efforts to privatize state-owned enterprises (SOEs) and may become the preferred means by which to broaden the ownership base of hitherto government-owned companies. Saif al-Islam has announced that the government will create investment "portfolios" for Libyan citizens and some speculate that instead of giving people money, the government will give them shares of former SOEs. Comments made last month by the Secretary of the GPC for Economy, Trade and Investment revealed how the LSEM will attempt to bridge the socialist and free market inclinations of the state. He noted that, "the establishment of the stock exchange market is part of the general restructuring of the Libyan economy...and most importantly, broadening the base of public ownership." The LSEM therefore appears to be a mechanism open Libya to the outside world, privatize SOEs, and serve the social aim of redistributing wealth internally. How well it performs each of these roles will directly impact the other, and the GOL's opaque economic reform process will likely make for continued slow going at the LSEM.

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